

Order 2003-10-8
Served: October 7, 2003



UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.

Issued by the Department of Transportation
on the 7th day of October, 2003

Essential Air Service at

SHOW LOW, ARIZONA

Under 49 U.S.C. 41731 *et seq.*

DOCKET OST-1998-4409

ORDER SETTING FINAL RATE

Order 2002-4-21, April 25, 2002, selected Arizona Express to provide subsidized essential air service (EAS) at Show Low, Arizona, for one year and set a final subsidy rate of \$538,432, through August 31, 2003, for two nonstop round trips per day to Phoenix with Beech King Air aircraft.

By letter dated May 30, 2003, the State of Arizona Department of Transportation (ADOT) requested that the Department delay issuance of any new, long-term contracts for essential air service at Page, Show Low, Prescott and Kingman. According to ADOT, it is working in conjunction with the four communities to prepare a proposal in which the State of Arizona would serve as the sponsor and contractor for a single carrier to provide essential air service at all four of these communities. In that capacity, ADOT states that the State would solicit, select, monitor and pay the carrier for its services with funds from the Essential Air Service program. The Department supports the efforts of ADOT to seek innovative solutions to local air service needs. Indeed, increased state involvement is one of the cornerstones of the Administration's Flight-100 reauthorization proposal. This concept is fully consistent with the aims of the Essential Air Service program. As a result, we have acceded to ADOT's request and deferred action on the setting of any long-term subsidy rates for these four communities until further notice.¹

In the meantime, Arizona Express is entitled to be compensated for its continued service beyond August 31. The carrier and staff have agreed to a subsidy rate of \$692,423 to provide 14 nonstop round trips each week to Phoenix, effective September 1, 2003, until further Department action.

¹ See Order 2003-6-30 for a complete discussion.

The service and subsidy levels appear reasonable. The expenses are virtually the same as those in Order 2002-4-21, notwithstanding that the equipment has been upgraded from a 9-seat Beech King Air to a larger, pressurized Beech 1900.² The only difference is in passengers, which are about 25 percent less than that projected in the earlier order. The rates appear reasonable for the amount of service provided.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. The Department sets the final subsidy rate for Arizona Express, Inc., for the provision of essential air service at Show Low, Arizona, as described in Appendix C, to be payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights completed during the month to Phoenix by \$485.23;³
2. We direct Arizona Express to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed, whichever comes first. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order; and
3. The Department will serve copies of this order on the Mayor and Airport Manager of Show Low, the Governor and Department of Transportation of the State of Arizona, and Arizona Express, Inc.

By:

MICHAEL W. REYNOLDS
Acting Assistant Secretary for Aviation
and International Affairs

(SEAL)

An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov>

² A Beech 1900 may have as many as 19 passenger seats. Arizona Express configures its aircraft to 9 seats.

³ See Appendix C for calculation.



Great Circle Miles

Show Low - Phoenix	129
- Flagstaff	112

Appendix B

Arizona Express, Essential Air Service to be Provided to Show Low, Arizona, Docket 4409

Departures	1,427
Block Hours	1,189
Passengers	4,300
 Psgr. Revenue	 \$447,200
<u>Freight @ 1%</u>	<u>\$4,472</u>
Total Revenue	\$451,672
 Flying Ops., Crew	 \$134,952
Flying Ops., Other	\$34,481
Fuel & Oil	\$143,869
Insurance	\$28,800
Maintenance	\$262,769
<u>Aircraft Lease</u>	<u>\$142,356</u>
Total Directs	\$747,227
 Landing Fees @ \$11.28/dep.	 \$16,097
Deicing 20 apps. @ \$75	\$1,500
Marketing	\$5,000
Customer Service	\$103,450
Passenger Overhead	\$154,780
<u>Administration</u>	<u>\$61,560</u>
Total Indirects	\$342,387
 Total Operating Expenses	 \$1,089,614
<u>Profit Element @ 5%</u>	<u>\$54,481</u>
Economic Costs	\$1,144,095
 Annual Subsidy @ 98%	 \$692,423

1/ SOW-PHX, 28 nonstop flights/week*52 weeks*50 min.*.98/60 = 1,189 blk. hrs., 1,427 depts.

**Arizona Express, Inc., Essential Air Service to be Provided to
Show Low, Arizona, Docket 4409**

Effective Period: September 1, 2003, until further Department action.

Scheduled Service:

14 nonstop round trips each week to Phoenix.

Aircraft: 9-seat Beech 1900D

Subsidy Rate per Phoenix Flight: \$485.23 ¹

Weekly Compensation Ceilings: \$13,586.44 ²

Note:

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ \$692,423 annual compensation, divided by 1,427 annual flights, calculated as follows:
28 flights/week*52 weeks*.98 completion

² 28 flights per week x \$485.23 = \$13,586.44.